

United States v. Navnoor Kang and Deborah Kelley
Prepared Remarks for U.S. Attorney Preet Bharara
December 21, 2016

Good afternoon. My name is Preet Bharara, and I am the United States Attorney for the Southern District of New York.

For the second time in less than six months, we bring criminal charges of fraud and corruption at a public pension fund in New York. In June, we charged Norman Seabrook, the President of the Correction Officer Benevolent Association, with allegedly funneling tens of millions of dollars in correction officer pension money to a hedge fund that paid him cash bribes.

Today, we allege bribery and corruption at the New York State Common Retirement Fund – the third largest pension fund in the country. This is a fund entrusted with over \$180 billion of pension money belonging to over a million New York state retirees and beneficiaries.

Specifically, today, we announce criminal charges against three individuals –

Navnoor Kang, the former Director of Fixed Income and Head of Portfolio Strategy at the New York State Common Retirement Fund.

Deborah Kelley, a former Managing Director at a New York-based broker-dealer.

And, we also unseal the guilty plea of Gregg Schonhorn, a vice president at another broker-dealer who has admitted to various federal crimes, and is now cooperating with the Government.

The corruption scheme alleged here was a simple one: Kang was a New York State employee who controlled all fixed-income trading for the Fund. He demanded and received bribes from broker-dealers like Kelley and Schonhorn. And in exchange for these bribes, Kang steered literally billions of dollars in Fund business their way (that's billions with a "B"). This was an age-old and classic tale of quid-pro-quo corruption.

What was the alleged quid? More than a \$100,000 in bribes for Kang. As spelled out in the indictment, the bribes took the form of travel expenses, hotels, sporting

events, concerts, strip clubs, expensive meals, prostitutes, drugs, luxury watches, and of course, cold hard cash.

And what was the alleged quo? Billions of dollars in fixed-income trades sent to the bribing brokers, Kelley and Schonhorn, generating for them personally millions of dollars in commissions.

The Fund's numbers paint a clear picture of the quid pro quo. In 2013, the broker-dealers that Kelley and Schonhorn worked for did no bond trades for the Fund. Zero. In fact, they were not even on the Fund's list of approved broker-dealers. But once Kang got there in February 2014, things changed dramatically. As they paid Kang bribes, the Fund's business with the two broker-dealers went through the roof.

Not surprisingly, the defendants allegedly took steps to conceal their corrupt and cozy relationship – because New York law and the Fund's internal policy strictly prohibits the receipt of gifts or entertainment. Indeed, it prohibited Kang from receiving anything of value from the broker-dealers. So, to hide their scheme, Kang and Schonhorn used smartphone applications like “WhatsApp” that did not retain the substance of the chats to communicate, and Kelley repeatedly filed false expense reports with her employer.

When it became clear that law enforcement was investigating them, the defendants got together to get their stories straight. And at depositions taken by the SEC under oath, we allege Kang and Kelley lied. They falsely claimed, for example, that Kelley had not paid for a ski trip to Park City, Utah for Kang and his girlfriend – even though she had. And afterwards, Kang asked Schonhorn whether he knew someone who could create fake receipts that would make it appear as if he had paid for his own trip.

When Schonhorn told Kang that he had received a grand jury subpoena from our office, Kang realized he needed to get rid of the evidence of his alleged crimes. In a meeting that Schonhorn – who was by then cooperating with the government – secretly recorded, Kang returned a \$17,000 Panerai watch that Schonhorn had given him a year earlier as a bribe.

Making a case like this one, involving secret payoffs and cover-ups, require talent, ingenuity, and hard work. That is what we had in our law enforcement partners and prosecutors.

I am joined here today by William Sweeney, the Assistant Director-in-Charge of the New York Field Office of the FBI. I want thank him and his team, specifically FBI Special Agents Deanna Pennetta and Sean Bartnik, for their dedication to this investigation.

I also want to recognize the Securities and Exchange Commission, represented here today by Andrew Ceresney for their assistance. In particular, I want to thank LeeAnn Gaunt, Brian Fagel, Eric Celauro, and Jason Howard.

I also would like to thank Steve Hamilton, the Inspector General for the New York State Comptroller's Office and his staff for their help in this investigation.

Finally, I want to thank and acknowledge the career prosecutors in my Office who worked tirelessly on this case. They are Edward Imperatore and Joshua Naftalis, the AUSAs handling the prosecution, and their supervisors, Katherine Goldstein and Tim Kasulis, the chiefs of our Securities and Commodities Fraud Unit.

Six years after former Comptroller Alan Hevesi pled guilty to a pay-to-play kickback scheme involving the fund, we allege that pay-to-play is back at the New York State Common Retirement Fund. The hard-earned pension money of New York State retirees should not serve as a vehicle for corrupt, personal enrichment. And investment decisions in this \$180 billion fund should be made in the public's interest, not sold in exchange for \$17,000 watches and Park City ski vacations.

This case finds itself at the intersection of public corruption and securities fraud. Unfortunately, this appears to be a busy intersection, one that my office and our law enforcement partners are committed to policing.

Thank you.